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PP RUEHBC RUEHDE RUEHDH RUEHKUK RUEHROV RUEHTRO  
DE RUEHCL #0230/01 3581236  
ZNR UUUUU ZZH  
P 241236Z DEC 09  
FM AMCONSUL CASABLANCA  
TO RUEHC/SECSTATE WASHDC PRIORITY 8580  
INFO RUCPDO/DEPT OF COMMERCE WASHDC  
RUEHEE/ARAB LEAGUE COLLECTIVE  
RUCNMGH/MAGHREB COLLECTIVE  
RUEHRB/AMEMBASSY RABAT 0015

UNCLAS SECTION 01 OF 03 CASABLANCA 000230

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SENSITIVE

STATE FOR S/P, NEA/MAG AND EB/IFD/OIA  
STATE PLS PASS TO USTR  
COMMERCE FOR NATHANIEL MASON

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [EINV](#) [EAID](#) [PREL](#) [ETRD](#) [PGOV](#) [MO](#)  
SUBJECT: AMBASSADOR ENGAGES SOME OF MOROCCO'S  
LEADING RISK TAKERS

REF: STATE 112468

¶1. (SBU) Summary: In the lead up to the White House Entrepreneurial Summit, the Ambassador met with some of Morocco's leading business entrepreneurs, academics and investors in Casablanca on December 17. The group highlighted three major constraints to the growth of entrepreneurship in Morocco: the lack of access to finance, the government's prohibitive fiscal policy and a risk-averse culture. According to the participants, Morocco's entrepreneurs need credit guarantee schemes, similar to those offered by the U.S. Small Business Administration, in order to support the development of small businesses. The interlocutors further suggested that private and public programs targeting young people (both in and out of school) could help create the next generation of "calculating risk takers." End Summary.

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Access to Finance  
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¶2. (SBU) Inadequate access to finance is a major constraint to the development of entrepreneurship in Morocco, agreed some of the country's leading business entrepreneurs, academics and investors. Small to medium-sized enterprises (SMEs), accounting for 90 percent of businesses in Morocco, face considerable difficulty in obtaining the necessary financial resources to effectively start up and grow their businesses, former Minister of Tourism and venture capitalist Adil Douiri told the Ambassador. As a result, the large majority of SMEs find it difficult to find financing beyond the initial loans from family and friends. Access to institutional capital is often prohibitively costly, due to unfavorable legal and regulatory policies and underdeveloped financial markets, added Douiri. His emphasis is well placed, as recent UN and World Bank studies highlight Morocco's shortcomings in this area, indicating that the inadequacies (and uneven implementation) of the country's judicial system have made some clientele increasingly skittish about investment and business transactions.

¶3. (SBU) According to Nezha Hayat, an executive with the Societe Generale bank, commercial banks in Morocco are reluctant to lend to SMEs because of the inherently higher risks associated with small businesses. This risk is due in part to the fact

that SMEs, the majority of which are one-person enterprises, operate in a more competitive environment and are less likely to withstand adverse developments than large companies, she pointed out. The high collateral demanded by lenders to mitigate such risks is the most widely cited obstacle encountered by SMEs in Morocco.

14. (SBU) Commercial banks do not accept new enterprises without a long track record of success as credible borrowers, even those already in business and sometimes operating profitably, opined Younes Benjelloun, the founder of one of Casablanca's leading private equity firms. At the same time, Benjelloun explained, the majority of venture capitalists consider the potential profits from SMEs to be too small to justify the high transaction costs associated with such investments. In addition, the paucity of exit mechanisms for venture capitalists or business angels restricts financial resources for entrepreneurs. While initial public offerings are by far the preferred exit mechanism for investors, Morocco's stock market is still thinly traded and SME stocks are largely absent, said Mohamed Al Mandjra, the CEO of Meditel, the country's second largest telecommunications firm.

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A Burdensome Tax System  
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15. (SBU) The roundtable participants also cited the country's prohibitive fiscal policy, specifically its imposition of high marginal tax rates on start-up capital, as a challenge for Morocco's entrepreneurs. According to the CEO of the Casablanca Stock Exchange, Karim Hajji, the country's elevated tax rates are a significant barrier to greater involvement of venture capital funds and business angels in the financing of small companies in Morocco. Transaction related to the preparation, due diligence, and negotiation phases are heavily taxed, discouraging deals below the USD 500,000 benchmark, said Hajji.

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A Risk-Averse Climate  
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16. (SBU) The risk-averse attitude of Morocco's youth is yet another obstacle to the development of entrepreneurship, participants said. As a result of the lack of experience and expertise, among other factors, potential young entrepreneurs are more inclined to be risk averse, said Nabila Freidji, a Western Union Executive. Coca Cola Morocco CEO Imad Benmoussa agreed, complaining that today's university graduates lack both the financial literacy and entrepreneurial spirit to create successful businesses in Morocco's increasingly globalized market. "What Morocco needs is more of its population to build companies, not to work for them," Benmoussa declared. Elaborating on this point, Rachid M'Rabet, the dean of the country's most prominent business school, argued that Moroccans' inability to translate sound ideas into feasible business plans may be a greater obstacle than access to capital.

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Recommendations  
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¶7. (SBU) In the participants' view, addressing the challenges facing Morocco's entrepreneurs will require innovative public-private partnerships. For instance, in order to increase the volume of financing available to smaller companies, the leading CEOs and academics proposed the development of a private/public guarantee scheme aimed at mitigating the risks associated with early-stage deals. A program similar to the U.S. Small Business Administration's, which makes loans directly to businesses and acts as a guarantor on bank loans, would go a long way in addressing the lack of access to finance, said Al Mandjra to the nods of others.

¶8. (SBU) While the government's efforts to promote entrepreneurship have yielded mixed results, the participants told the Ambassador, the Government must consider amending its prohibitive tax policy. Moreover, in order to expand the population of "calculating risk takers," the country needs private and public programs to help young people (both in and outside of schools) establish their own businesses by providing low interest loans, training, and mentoring support.

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Comment  
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¶9. (SBU) Greater entrepreneurship, specifically among the country's SMEs, will be critical to maintaining the six percent GDP growth needed to absorb the country's active population. Enterprise promotion programs targeting young people, such as business incubators, would fill a significant gap in Morocco's economic reforms and might be a promising area for future activities supported by the Middle East Partnership Initiative (MEPI) and/or USAID. Moreover, reforming the country's commercial legal framework will be essential in promoting the growth of entrepreneurship in Morocco. Success will depend on the creation of both a culture of

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entrepreneurship and the legal, regulatory and financial institutions and practices to support it, a responsibility that will implicate the Government, public development institutions, civil society and the private sector. End Comment.

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